MACKENZIE Investments | CONFIDENCE IN A CHANGING WORLD

VIA E-MAIL:
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September 30, 2016

Alberta Securities Commission
Autorité des marchés financiers
British Columbia Securities Commission
The Manitoba Securities Commission
Financial and Consumer Services Commission (New Brunswick)
Nova Scotia Securities Commission
Ontario Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan

Robert Blair, Acting Secretary
Ontario Securities Commission
20 Queen Street West, 22nd Floor
Toronto, ON M5H 3S8

Me Anne-Maire Beaudoin, Corporate Secretary
Autorité des marches financiers
800, rue du Square-Victoria, 22e étage
C.P. 246, tour de la Bourse
Montréal, Québec H4Z 1G3

Re: Canadian Securities Administrators (CSA) Consultation Paper 33-404: Proposals to Enhance the Obligations of Advisers, Dealers, and Representatives toward Their Clients (Consultation Paper)

We are pleased to provide comments on behalf of Mackenzie Financial Corporation (Mackenzie Investments) on the CSA's Consultation Paper dated April 28, 2016.

Mackenzie Investments is a portfolio manager and investment fund manager with total assets under management as at June 30, 2016 of approximately $61.7 billion including mutual fund assets under management of approximately $48.2 billion. Mackenzie Investments is a wholly owned subsidiary of IGM Financial Inc., which in turn is a member of the Power Financial Corporation group of companies. We distribute our products to over 1 million clients across Canada through approximately 250 dealers representing over 30,000 financial advisors.

General Comments

Mackenzie Investments is aligned with the CSA in the desire to ensure continued access to high quality financial products, services and financial advice for all Canadians. Our heritage is one marked by innovation and thought leadership driven by expertise in asset management that creates financial success for investors. Everything we do starts with the needs of investors, whether they are saving for a child's post secondary education, setting money aside for the future needs of a family member with a disability, or funding their own retirement. In fact, our focus is summed up in our Vision Statement: We are committed to the financial success of investors, through their eyes.

Based on our review of the Consultation Paper, we wish to highlight what we see as important considerations for the CSA as the proposals move forward. Namely, (i) that we retain an innovative, competitive financial services industry in Canada, which provides investors with access to a broad range of products and product manufacturers and, (ii) that financial advice in Canada remains accessible and affordable, particularly for modest investors.

Accessibility to a Range of Products and Product Manufacturers

Mackenzie Investments offers over 100 mutual fund products to investors. As an independent fund manufacturer in Canada,[1] we rely primarily on financial advisors to distribute our investment products and solutions and to provide financial planning and advice to our clients. Increasingly, we have seen advisors respond to regulatory and client expectations by shortening their client lists and decreasing the number of fund manufacturers with whom they are working. While this trend has been evident for several years, it now appears to be accelerating.[2]

We have a concern that the Know Your Product (KYP) requirements of the targeted reforms for advisors and firms, as currently proposed, may cause there to be an even further decrease in the number of products and fund manufacturers on the product lists of firms.

For advisors, we believe the CSA's proposal that registrants have "sufficient" knowledge of <u>each</u> product their firm trades or advises on, including an understanding of how the products compare to each other, beyond the products and securities that the advisor buys and sells for, or recommends to, their clients may prove to be impracticable. The breadth of most firm product lists (even approved product lists) can have hundreds, if not thousands, of fund codes, in addition to securities and deposit products. For example, Mackenzie Investments alone generally has multiple series of each of our funds, which allows us to provide investors with choices as to sales purchase options (e.g., discount brokerage, fee-based, commission-based, negotiated advisor fee, etc.) account type (e.g., RDSP or RESP) and for some funds, the frequency and type of distribution. For firms with a mixed/non-proprietary product list, the CSA's expectations surrounding the

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[1] We refer to independent fund manufacturers as those manufacturers not owned by a bank, credit union or life insurance company. In 2005, independent fund manufacturers accounted for 56.4% of the net assets in the industry, while the banks and credit unions only made up 32%. In 2015, the banks and credit unions had 43% of market share, while the independents dropped to 41%. (Source: Investor Economics, 2016; see also: Clare O'Hara, *Banks taking share from independent mutual-fund firms*, The Globe and Mail, May 25, 2015).

[2] In fact, many advisors place more than half their business with their preferred fund manufacturer. Source: Environics Research, *2015 Adviser Perceptions in Canada: A focus on the Future & Consumers* (2015).

KYP requirement for market investigation, product comparison and product list optimization we expect will create even further compliance pressures.

In our view, the most likely response by firms to the proposed KYP requirements will be to significantly reduce their product shelf in order to facilitate both advisor and firm compliance. For firms with a mixed product list, we expect that the perceived difficultly of having to evidence that the choice of a proprietary product on the firm's shelf meets a "fair and unbiased" market investigation in light of the proposed conflicts of interest requirement may further cause some of these firms to consider simply to move exclusively to a proprietary firm model. For example, today the bank branch channel accounts for over 41% of assets under management in Canada, of which approximately 90% is of their proprietary products. [3] It is therefore not unimaginable in our view that the bank branch channel may choose to move to a proprietary model if compliance with KYP for a mixed shelf appears too complex.

We submit that any pressure on firms to further narrow their product lists, or move away from distributing independent fund manufacturer products altogether, will have a negative impact on investor outcomes and the vibrancy of the financial services industry in Canada.

Fewer products on firm shelves will likely lead to advisors and investors having less access to a broad range of products and fund manufacturers to choose from. A smaller product list may also cause firms to choose products for their shelf that "most likely" meet the investment needs and objectives of the broadest segment of their client base, which means that there will likely be fewer innovative and non-traditional products on firm product lists.

We believe product innovation is critical to good investor outcomes and to a vibrant capital markets. Mackenzie Investments is committed to bringing innovative and distinctive products, strategies and solutions to Canadian investors. We offer a number of differentiated products for specific client investment needs and objectives, as well as non-traditional strategies, which we believe are unique to the market and can help investors achieve good outcomes.

Most recently, this has included the Mackenzie Unconstrained Fixed Income Fund, which offers a strategy that aims to deliver positive returns over a market cycle; the Mackenzie Diversified Alternatives Fund, which offers investors access to non-traditional asset classes which increase the diversification of an investor portfolio when paired with a traditional balanced portfolio; and with Paris-based firm TOBAM, the Mackenzie Maximum Diversification Canada Index ETF and the Mackenzie Maximum Diversification U.S. Index ETF, which offer investors an index based strategy that is alternatively weighted rather than the traditional market capitalization weighted approach, which gives investors enhanced diversification. Also important to us are our product offerings that fill a specific but important role in the market and in our community, such as our registered disability savings plans (RDSPs) and our charitable foundation. We are proudly the only independent fund manufacturer to offer RDSPs.

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[3] Source: Investor Economics, 2016.

Inevitably, we believe any pressure on firms to further narrow product lists or decrease the number of independent fund manufacturers on product shelves will simply lead to fewer independent fund manufacturers in the Canadian market, who today already face the challenge of a distribution network that is dominated by the banks. In our view, fewer independents will mean a less competitive financial services industry in Canada, which will likely affect cost competition and product innovation, to the detriment of investor outcomes.

We would therefore encourage the CSA to consider ways to make the proposed KYP requirements more manageable for advisors and firms from a compliance perspective, in order to avoid these potential outcomes. One such way could be for the CSA to consider further guidance to registrants on the knowledge advisors are expected to have of the broader range of products and securities that may be on a firm's product list that they do not intend to buy and sell for, or recommend to, their clients, having determined they do not meet their clients investment needs and objectives. Another option is for the CSA to provide greater guidance and support for advisors and firms in the use of technology to facilitate regulatory compliance. We would also suggest the CSA could consider introducing naming conventions for fund categories and for series options, which we believe may assist with compliance of the KYP requirement. Uniform naming conventions would also have the benefit of providing greater clarity to investors, and facilitate their ability to compare mutual funds across product categories and series options.

Mackenzie Investments strongly believe fund manufacturers have an important role in the continuing education of advisors and investors, not only with respect to understanding investment products and securities, but also with respect to educational information on broader financial planning matters, including investment, retirement and tax and estate planning and financial education generally. Accordingly, we would recommend as part of the targeted reforms that the CSA consider rule amendments to NI 81-105, to codify existing discretionary relief in this area as well as further expand the "primary purpose" of permissible conference, seminar and sales communication topics for firms, advisors and investors that fund manufacturers can organize and/or directly support. We would also support the CSA allowing fund manufacturers to reimburse the costs or expenses of advisors relating to professional development conferences, seminars or courses organized and presented by an industry association. We believe these changes will further the CSA's aim of a heightened professionalism of advisors, as well as assist in mitigating the expectation gap and information asymmetry the CSA has identified between registrants and their clients. We believe promotion of continuing education of advisors and investors builds investor trust and confidence in the client-registrant relationship and in the financial services industry generally.

Retaining the Accessibility and Affordability of Financial Advice

Mackenzie Investments strongly believes in the value of advice provided to Canadians by financial advisors. Among other things, advised households (i) are twice as likely to save for retirement at all ages (ii) have significantly higher levels of investable assets at all ages (iii) improve their regular saving for retirement at all income levels (iv) rate themselves as more financially knowledgeable; and (v) are more confident in their ability to achieve a comfortable retirement.[4] We also know that investors' primary source of financial information comes from their advisors.[5]

As the CSA moves forward with its review of whether or not to discontinue embedded commissions, as outlined in CSA staff notice 81-327, it will be important for the CSA to ensure that the enhanced client-registrant relationship espoused in the Consultation Paper remains accessible and affordable to more modest investors.

Research shows that fewer choices of compensation models can limit access to advice, and result in higher overall costs, particularly for households with more modest investment levels.[6] Where regulation has been changed to ban or limit commissions, the absence of embedded compensation has been found to lower the cost of the product, but the cost of advice was seen to go up. It has also been found that in jurisdictions that have moved to fee-based compensation, those with less wealth or income have found it more difficult to get advice than others.[7] In our view, the barriers to financial advice in the U.K. for lower to middle income investors post implementation of the Retail Distribution Review (RDR) rules raise legitimate concerns that the CSA needs to consider.

Modest investors (those with under $100,000 in investible assets), make up 80% of all Canadian households.[8] In 40% of these households, the financial advice relationship was initiated with financial assets of not more than $10,000. We also know that the benefit of wealth accumulation is exponentially greater the longer the advice relationship.[9] Therefore, we believe it is critical that as the regulatory framework continues to evolve in Canada, there continues to be choice for investors in how they pay for financial advice, so that the benefits of the reforms contemplated in the Consultation Paper will remain accessible and affordable to all Canadians.

We look forward to the CSA's upcoming consultation paper to comment further on possible options to achieve the CSA's aim of greater alignment and clarity on advisory

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[4] Sources: CIRANO, *Econometric Models on the Value of Advice of a Financial Advisor* (2012) and *The Gamma Factor and the Value of Financial Advice* (2016). Advised households, at all age levels, are twice as likely to save regularly for retirement than non-advised households, with advised households having higher net worth than non-advised households across all ages and income levels (Source: IFIC *The Value of Advice,* 2011).

[5] Key Highlights CSA Investor Education Study 2016 prepared for the CSA by Innovative Research Group, Inc., April 2016.

[6] Source: Investor Economics & Strategic Insight, *Monitoring Trends in Mutual Fund Cost of Ownership and Expense Ratios: A Canada-U.S. Perspective,* 2015.

[7] Source: The Brondesbury Group, *Mutual Fund Fee Research*, 2015.

[8] Source: Investor Economics, *Household Balance Sheet*, 2015.

[9] Sources: CIRANO, *Econometric Models on the Value of Advice of a Financial Advisor,* 2012 and *The Gamma Factor and the Value of Financial Advice* (2016).

services and their costs, while still preserving choice for investors in how they pay for financial advice.

Best Interest Standard

We support the merits of establishing a principled foundation for the client-registrant relationship and agree that the proposed best interest standard could lend support to the targeted reforms. With that said, we consider the investor protection benefits as articulated in the Consultation Paper for the introduction of a best interest standard substantially achieved by the proposed targeted reforms.

Should a best interest standard move forward, we feel it is extremely important that this standard be national in scope and application. Absent a standard applicable to all registrants across the country, we believe the complexity and regulatory cost of compliance for firms and advisors who carry on business across Canada, and more importantly, the potential confusion for Canadian investors created by having different standards of conduct for advisors across the country, would significantly negate the potential benefits of such a standard.

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We thank you for the opportunity to provide comments on the Consultation Paper. Please feel free to contact Donald MacDonald, Senior Vice-President, General Counsel & Secretary at (204) 956-8088 or myself if you have any questions or require additional information.

Yours truly,

MACKENZIE FINANCIAL CORPORATION

Barry S. McInerney,
President and Chief Executive Officer